# CANADA - BRITISH COLUMBIA CROP INSURANCE

## FINANCIAL STATEMENTS

*For the Year Ended March 31, 1990*

## AND SELECTED STATISTICS

*For the 1989 Crop Year*

Agriculture Canada

Hon. Don Mazankowski, Minister

BC

Ministry of Agriculture and Fisheries

Hon. John L Savage, Minister

91-01464/

British Columbia Cataloguing in Publication Data

Main entry under title:
Canada-British Columbia crop insurance financial statements and selected statistics for the year ended March 31 ... — 1987 —

Annual.
Cover title.
Co-published by British Columbia Ministry of Agriculture and Fisheries.
Includes auditor's report of the B.C. Crop Insurance Branch.
ISSN 0835-7706

1. Insurance, Agriculture - Crops - British Columbia - Statistics Periodicals.
2. British Columbia. Crop Insurance Branch - Appropriations and expenditures - Periodicals.
3. Agriculture and state - British Columbia - Statistics - Periodicals.
I. Canada. Agriculture Canada. II. British Columbia. Ministry of Agriculture and Fisheries.

HG9968.C36 368.1'22

# *TABLE OF CONTENTS*


| | | |
|---|---|---|
| *1)* | *Program Overview* | |
| | *— Introduction* | *3* |
| | *— 1989 Experience* | *5* |
| | *— Future Direction and Goals* | *6* |
| *2)* | *Auditor's Report* | *7* |
| *3)* | *Notes to Financial Statements* | *12* |
| *4)* | *Selected Statistics* | |
| | *(i) Total Coverage by Economic Development Region* | *17* |
| | *(ii) Crop Insurance by Economic Development Region* | *18* |
| | *(iii) Comparison of Premiums and Indemnities* | *20* |
| | *(iv) 1989 Cumulative Balance* | *21* |
| | *(v) 1980-89 Crop Insurance Total Coverage* | *22* |
| | *(vi) 1985-1989 Total Coverage by Plan* | *23* |
| | *(vii) Estimated Market Share* | *24* |
| | *(viii) Indemnities By Plan* | *25* |
| | *(ix) Causes of Loss* | *26* |
| | *(x) Claims — Distribution and Amount* | *27* |
| | *(xi) Administration Costs* | *28* |
| *5.* | *Evaluation Survey* | *29* |

# Crop Insurance Program Overview

## *Canada - British Columbia Crop Insurance*

## *Program Overview*

### *The Objective*

The program objective is to avoid the need for ad hoc emergency assistance by minimizing the economic effects of crop losses caused by specified natural perils such as drought, hail, flood and frost. The voluntary crop insurance program makes basic crop loss protection available to farmers in the form of a production guarantee. Farmers and the Government of Canada equally share the cost of the premiums while the Government of British Columbia delivers the program and covers all administration costs and debt interest expense.

### *Coverage*

Crop insurance was first offered to British Columbia tree fruit producers in 1967 and to grain, grape and berry farmers in 1968. Since then, the program has grown significantly and has been expanded to seven plans comprising twenty-eight insurable commodities:

| PLAN | COMMODITY |
|---|---|
| Berries | Strawberries, Raspberries, Blueberries and Cranberries |
| Forage | Forage |
| Grain | Wheat, Rapeseed, Oats and Barley |
| Grapes | Grapes |
| Honey | Honey |
| Tree Fruit | Apples, Peaches, Apricots, Pears, Plums and Sweet and Sour Cherries |
| Vegetables | Beans, Peas, Carrots, Onions, Potatoes, Corn, Broccoli, Brussels Sprouts, Cabbage and Cauliflower |

Insurance coverage for crop loss may be offered to a maximum level of 80 percent of average yield production.

Extended coverage is available to protect against loss of certain perennial plants as well as the inability to seed grain due to excessive moisture. Hail and fire spot-loss coverages are also included in some plans.

### *Administration*

The crop insurance plan is administered from seven field offices in the province. The head office is located in Victoria, with field offices in Abbotsford, Kelowna, Penticton, Oliver, Williams Lake, Fort St. John and Dawson Creek.

## *Legislation*

The Province under the Insurance For Crops Act offers multi-peril insurance to farmers of described crops in designated areas. The Federal Crop Insurance Act allows the federal government to contribute to the provincial program. Federal Government cost sharing is subject to the province adhering to standards as set out in the new federal-provincial agreement.

The Government of Canada provides financial assistance to the Canada-British Columbia Crop Insurance Program by contributing 50 percent of the total premium required each year. The federal government's contribution to this program totalled $4.8 million for 1989-90.

The Government of British Columbia contributes all of the administration costs totalling approximately $3.3 million for 1989-90. Administration costs include operating costs of $1.6 million plus an estimated $1.7 million interest cost which is contributed by the province toward financing the crop insurance debt.

## *Advisory Committees*

Advisory committees established for each plan are composed of farmers growing one or more of the commodities in the plan. The committees meet with crop insurance staff at least once a year.

The purpose of these meetings is to provide an opportunity for farmer input into the design and development of the program and for the administrators to gain from the advice and views offered by farmers. The names of the current advisory committee members for each plan are listed below.

### *ADVISORY COMMITTEE MEMBERS AS OF MARCH 31, 1990*

**Tree Fruit**
Jim Campbell (Chairman), Osoyoos
John Schmidt, Winfield
Frank Lauer, Summerland
Jake Van Westen, Naramata
Russell Husch, Winfield
Roy Schuler, Creston
David Marshall, Oyama

**Vegetables**
Jim Harris (Chairman), Delta
Ron Harris, Delta
Robert Savage, Delta
Bagga Dhillon, Abbotsford
Henry Krause, Aldergrove

**Grain**
Gordon Hill (Chairman) Taylor
Malcolm Lucas, Baldonnel
Garry Smolik, Dawson Creek
Douglas Parker, Fort St. John
Horst David, Tomslake
Ross Ravelli, Dawson Creek

**Forage**
Norman Hudson (Chairman), Horsefly
Doug Murdock, Walhachin
Whitney Montray, Vanderhoof
Ethelann Stewart, Baldonnel
John Miller, 150 Mile House

**Honey**
Chairman pending

William (Bill) Ruzicka, Kelowna
Dale Hanson, Farmington

**Berries**
Chairman pending

Jim Gaskin, Richmond
Harvey Krause, Aldergrove
Darshan Mahil, Abbotsford
June Ross, Abbotsford
Paul Dhillon, Richmond

**Grapes**
Doug Sperling (Chairman), Kelowna
Lanny Martiniuk, Oliver
Guy Wilson, Naramata
Sue Irvine, Naramata

## *Appeals*

The Contract of Insurance allows an insured farmer to appeal a decision regarding a claim when agreement cannot be reached with the insurer. The appeals are heard by the Arbitration Tribunal consisting of the chairperson, a representative appointed by the appellant and a representative appointed by the appropriate Crop Insurance Advisory Committee.
The appeal process is seen as a desirable way of settling claim disputes which cannot be settled between the insurer and the insured.

## *Summary of 1989 Crop Year*

The crop year for perennial crops is November 1 of one year to October 31 of the following year. Annual crops are covered from April 1 to March 31 of the following year.

In 1989 crop year, 2,227 farmers insured crops for coverage totalling $81.6 million. Adverse weather caused losses. Crop year indemnities of $10.9 million exceeded premiums by $1.3 million.

Premiums exceeded claims in the grain and vegetable plans. Claims exceeded premiums in the tree fruit, grape, berry, forage and honey plans.

In 1989 significant underwriting losses in berries, grapes and tree fruit were primarily due to the freezing temperatures during the early winter of 1989. Hail and rain storms in the Okanagan, during the growing season, further contributed to tree fruit claims.

Further details, on a crop year basis, are provided in the statistical summary.

## *Crop Insurance Review*

In July of 1988 the federal and provincial Ministers of Agriculture initiated a review of the legislation, funding, policies and operational guidelines of the crop insurance programs.

The objective of the review was to develop options for crop insurance improvements, taking into account the concerns of farmers and the federal and provincial governments as well as financial, actuarial and administrative feasibility.

Consultations with client groups resulted in the approval and enactment of an amended Federal Crop Insurance Act prior to the end of the fiscal year.

The amended Crop Insurance Act set higher standards for operation and control of the program and deleted the cost-sharing formula that existed between the governments of Canada and British Columbia.

Changes to the Act include a requirement that each province obtain an actuarial certificate for premium rate-setting methodology to ensure that over time premiums levied are sufficient to meet indemnities. The maximum coverage level may be increased from 80 per cent to 90 per cent of long term average production. The cost sharing formula states that the premium costs of the program will be shared 50 per cent by the farmer, 25 per cent by the Federal government and 25 per cent by the provincial government. Administration costs will be shared equally by the federal and provincial governments.

Details of the new agreement between Canada and British Columbia are presently under study and negotiation.

Upon agreement, British Columbia must meet the operational standards set out in the new Act by 1993. The net cost to the province ($3.3 million – 1989/90) will increase as a result of the new cost sharing agreement. In addition, the higher standards will increase operating costs. Ultimately the quality of service offered to the client group will improve.

## *Future Direction and Goals*

The primary objective of the program continues to be to insure at least 70 per cent of farmers and acreage for crop loss due to weather perils while maintaining actuarially sound premium rates which contribute to a self sustaining fund balance whereby premiums equal indemnities over time. Several goals have been established to achieve this objective.

### 1. Increased Participation

The proportion of farmers and crop areas insured under the program varies among plans. Tree fruit and grape plans have high participation rates. Marketing and sales efforts will be emphasized in 1991 in an effort to increase participation in the vegetable, grain, forage, berry and honey plans.

Additional commodities will be analyzed for inclusion in the crop insurance program as the insurance requirements of the agricultural industry evolve.

### 2. Reduce Program Debt

The Province has loaned the Crop Insurance Program $15 million to fund the present crop insurance debt. The debt is a result of claims exceeding premiums over the history of the program.

The application of sound underwriting principles to accurately assess risk, a flexible operating budget and the reorganization of the Crop Insurance Branch in 1990 to allow for a more efficient and effective division of duties are seen as critical factors in reducing the debt. An understatement of risk results in unnecessary losses while an overstatement of risk results in low participation, particularly among low risk farmers.

Individualized underwriting systems are being introduced in all plans.

### 3. Increased Efficiency

Increasing efficiency is required to achieve the combined goals of increased participation and debt reduction. This will be assisted through program automation which is to be implemented by March 1991. Every crop insurance representative will have a computer terminal on which to underwrite contracts and process claims. Automation will improve program delivery and service to our clients.

**Financial Statements of**

# B.C. Ministry of Agriculture and Fisheries - Crop Insurance Program

**Auditors' Report**

**March 31, 1990**

**Note:**
*As you read through the report, please remember that perennial and annual crops statistics will differ slightly from fiscal year statistics due to their differing reporting periods.*

| | | |
|---|---|---|
| *Perennial Crop Year* | — | *November 1, 1988 - October 31, 1989* |
| *Annual Crop Year* | — | *April 1, 1989 - October 31, 1989* |
| *Fiscal Year* | — | *April 1, 1989 - March 31, 1990* |

## AUDITORS' REPORT TO THE DIRECTOR

We have examined the balance sheet of the B.C. Ministry of Agriculture and Fisheries - Crop Insurance Branch as at March 31, 1990 and the statement of revenue, expenditure and deficit for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the Branch as at March 31, 1990 and the results of its operations for the year then ended in accordance with the accounting principles described in Note 2 to the financial statements applied on a basis consistent with that of the preceding year.

Peat Marwick Thorne

Chartered Accountants

Vancouver, Canada

June 29, 1990

# B.C. MINISTRY OF AGRICULTURE AND FISHERIES - CROP INSURANCE BRANCH

Balance Sheet

March 31, 1990
(With comparative figures for 1989)

| | | 1990 | 1989 |
|---|---|---|---|
| **Assets** | | | |
| Due from the Ministry of Finance and Corporate Relations | $ | 594,057 | 964,541 |
| Premiums receivable: | | | |
| Due from insured growers | | 4,634,842 | 4,165,680 |
| Premiums subsidy receivable from the Government of Canada | | 4,603,350 | 4,136,080 |
| | $ | 9,832,249 | 9,266,301 |
| **Liabilities and Deficit** | | | |
| Provision for losses incurred | $ | 530,000 | 7,161,000 |
| Unearned premiums | | 5,199,565 | 4,684,249 |
| Advances from the Ministry of Finance and Corporate Relations (Note 3) | | 14,950,000 | 13,700,000 |
| | | | 25,545,249 |
| Deficit, per accompanying statement | | (10,847,316) | (16,278,948) |
| | $ | 9,832,249 | 9,266,301 |

**See accompanying notes to financial statements.**

_____ Director

# B.C. MINISTRY OF AGRICULTURE AND FISHERIES - CROP INSURANCE BRANCH

Statement of Revenue, Expenditure and Deficit

Year ended March 31, 1990
(With comparative figures for 1989)

| | | 1990 | 1989 |
|---|---|---|---|
| Revenue: | | | |
| Crop insurance premiums: | | | |
| Premiums from insured growers | $ | 4,984,059 | 4,932,281 |
| Premiums subsidy from the Government of Canada | | 4,985,992 | 4,932,781 |
| Interest on overdue accounts | | 7,848 | 20,648 |
| | | 9,977,899 | 9,885,710 |
| Expenditure: | | | |
| Losses incurred | | 4,546,267 | 15,277,796 |
| Excess of revenue over expenditure (expenditure over revenue) | | 5,431,632 | (5,392,086) |
| Deficit, beginning of year | | (16,278,948) | (10,886,862) |
| Deficit, end of year | $ | (10,847,316) | (16,278,948) |

See accompanying notes to financial statements.

# B.C. MINISTRY OF AGRICULTURE AND FISHERIES - CROP INSURANCE BRANCH

Notes to Financial Statements

March 31, 1990

---

The Crop Insurance scheme, introduced in 1967, was established to stabilize farm income by minimizing, at an individual level, the detrimental economic effects of crop losses due to uncontrollable natural perils. Commodities insured under the scheme are grouped into eight programs: tree fruit, grain, forage, grape, berry, vegetable, honey and livestock feed.

1. **Authority:**

   The Crop Insurance scheme is administered by the Province of British Columbia ("the Province"), Ministry of Agriculture and Fisheries under the authority of the Insurance for Crops Act, R.S.B.C. Chapter 202. The Act gives the Minister of Agriculture and Fisheries the authority to enter into an agreement with Her Majesty the Queen in the Right of Canada ("Federal Government") on crop insurance.

2. **Significant accounting policies:**

   (a) Basis of reporting:

   The Crop Insurance scheme financial position and activities are reported in accordance with the Financial Administration Act, and Regulations and Treasury Board Policies and Guidelines.

   (b) Premiums subsidy from the Government of Canada:

   The Crop Insurance Agreement between the Federal Government and the Province requires the Federal Government to match crop insurance premiums received from insured growers. Under the agreement, the Province was required to advance the federal contribution to the Crop Insurance Branch ("Branch") and apply for reimbursement from the Federal Government (Note 6).

   (c) Premium revenue:

   Premium revenue is included in income on a pro rata basis over the life of the insurance contracts.

   Under generally accepted accounting principles for property and casualty insurance companies, in those instances where anticipated future claims and expenses exceed unearned premiums, a provision for premium deficiency is recorded. Due to the nature of operations of the Crop Insurance scheme, the Branch does not record a provision for premium deficiency.

**2. Significant accounting policies, continued:**

(d) Provision for losses incurred:

Losses are charged to income as incurred. The provision for losses incurred represents the accumulation of estimates from reported losses and those incurred but not reported. The methods of determining such estimates and establishing resulting provisions are continually reviewed and updated, and adjustments resulting therefrom are included in income currently. Since the provision is necessarily based on estimates, the ultimate liability may be more or less than the provision.

(e) Allowance for doubtful accounts:

Credit is normally granted to insureds for the amount of premium, until the insured crop is harvested.

Since losses due to uncollectible accounts have been immaterial in the past no provision is made.

**3. Advances from the Ministry of Finance and Corporate Relations:**

The Province, in accordance with R.S.B.C. Chapter 202 of the Insurance for Crops Act, has advanced a total of $14,950,000 (1989 - $13,700,000) on an unsecured, interest-free basis to the Branch to fund the premium deficiency.

The Ministry of Finance and Corporate Relations Crop Insurance stabilization appropriation limit is $25,000,000.

**4. Costs borne by the Province:**

The Crop Insurance Agreement between the Federal Government and the Province requires the Province to pay all the administration costs of the Crop Insurance scheme (Note 6). Further, the above mentioned agreement states that the premium payable should be revised annually in such a manner as will keep the Crop Insurance scheme self-sustaining. Due to heavy losses in recent years and resulting financial stress to growers, premiums have not increased sufficiently to offset losses. The resulting deficit has been funded through advances from the Ministry of Finance and Corporate Relations (see Note 3).

**4. Costs borne by the Province, continued:**

The following schedule discloses contributions of the Province, both to pay administration costs and the estimated cost to the Province of advancing monies on an interest-free basis to the Branch:

| | | 1990 | 1989 |
|---|---|---|---|
| Salaries and benefits | $ | 1,097,600 | 1,027,400 |
| Administration costs: | | | |
| Automobile expenses | | 35,000 | 23,100 |
| Contract services | | 117,250 | |
| Data processing | | 80,600 | 65,600 |
| Machinery and equipment | | | 12,500 |
| Members' allowances and expenses | | 5,300 | 9,200 |
| Miscellaneous | | | 400 |
| Printing and stationery | | 10,300 | 15,100 |
| Professional services | | 15,250 | 23,000 |
| Rent | | 149,200 | 149,200 |
| Travelling expenses | | 104,000 | 62,600 |
| | | 1,614,500 | 1,388,100 |
| Estimated cost of borrowing funds which have been advanced on an interest-free basis to the Branch | | 1,660,000 | 1,690,000 |
| | $ | 3,274,500 | 3,078,100 |

**5. Statement of Changes in Financial Position:**

A statement of changes in financial position has not been prepared as it would provide no significant additional information.

**6. Subsequent event:**

The Crop Insurance Agreement between the Federal Government and the Province was terminated on April 1, 1990 when Bill C-48, which amended the Crop Insurance Act, came into force.

Effective April 1, 1990, the amended Crop Insurance Act empowers the Federal Government to contribute to the Province an amount equal to 25% of premiums paid in the Province and 50% of expenses incurred by the Province in administering the insurance scheme. The Province is in the process of negotiating an agreement with the Federal Government to provide for the payment of Federal Government contributions.

Effective April 1, 1990, the Province has committed to match crop insurance premiums received from insured growers.

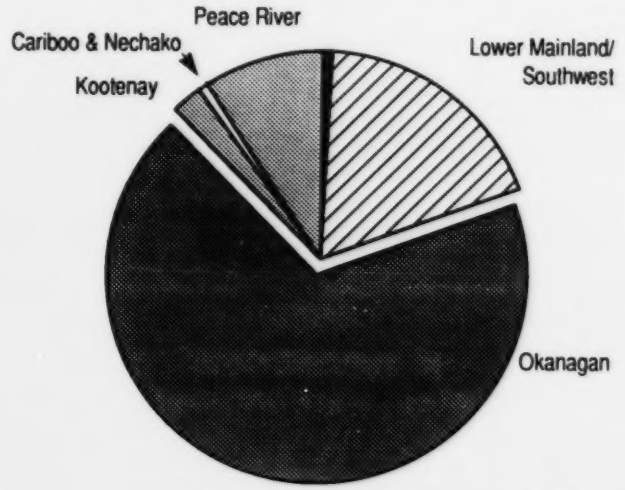
Premium subsidies from the Federal Government and the Province have been accrued as it is the opinion of management that premiums receivable from insured growers will be collected and will be eligible for Federal Government and Provincial contributions.

# Selected Statistics for 1989 Crop Year

*Total insurance coverage — $81.6 million*

**1989**

**Total Coverage by Economic Development Region**




| | % of Total Coverage |
|---|---|
| Region 1 - Vancouver Island/Coast | 0.9% |
| Region 2 - Lower Mainland/Southwest | 18.5% |
| Region 3 - Okanagan | 68.2% |
| Region 4 - Kootenay | 2.2% |
| Region 5 - Cariboo | 0.7% |
| Region 6 - North Coast | 0.0% |
| Region 7 - Nechako | 0.1% |
| Region 8 - Peace River | 9.4% |

**The crop insurance program is widely available within the province with total insurance coverage of $81.6 million.**

**Variation among economic development regions is determined by agricultural capability and participation level in each region.**

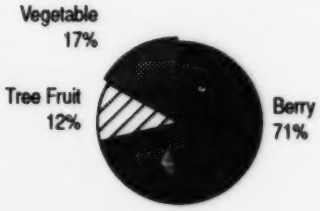
## *1989*

## *Crop Insurance by Economic Development Region*

**Insurance/Region**

*Region 1*

*Vancouver Island/ Coast*

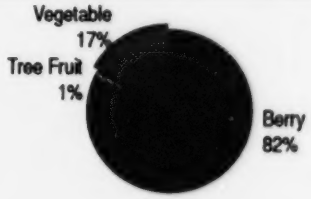



**$ 0.7 million**

---

*Region 2*

*Lower Mainland/ Southwest*

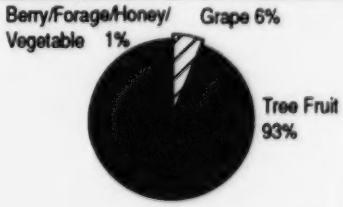



**$ 15.1 million**

---

*Region 3*

*Okanagan*

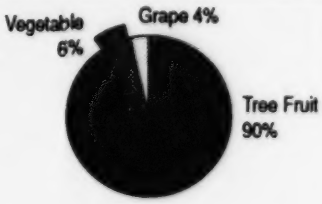



**$ 55.8 million**

---

*Region 4*

*Kootenay*




**$ 1.8 million**

## *1989*

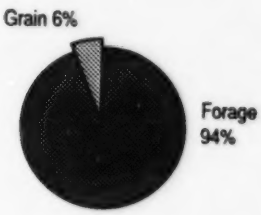
## *Crop Insurance by Economic Development Region*

***(continued)***

**Insurance/Region**

### *Region 5*

*Cariboo*




**$0.6 million**

---

### *Region 6*

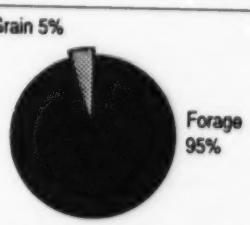
*North Coast*

**No contracts have been underwritten in Region 6 at the present time.**

---

### *Region 7*

*Nechako*

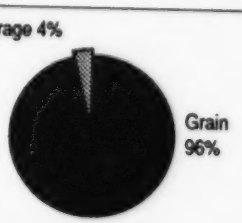



**$0.05 million**

---

### *Region 8*

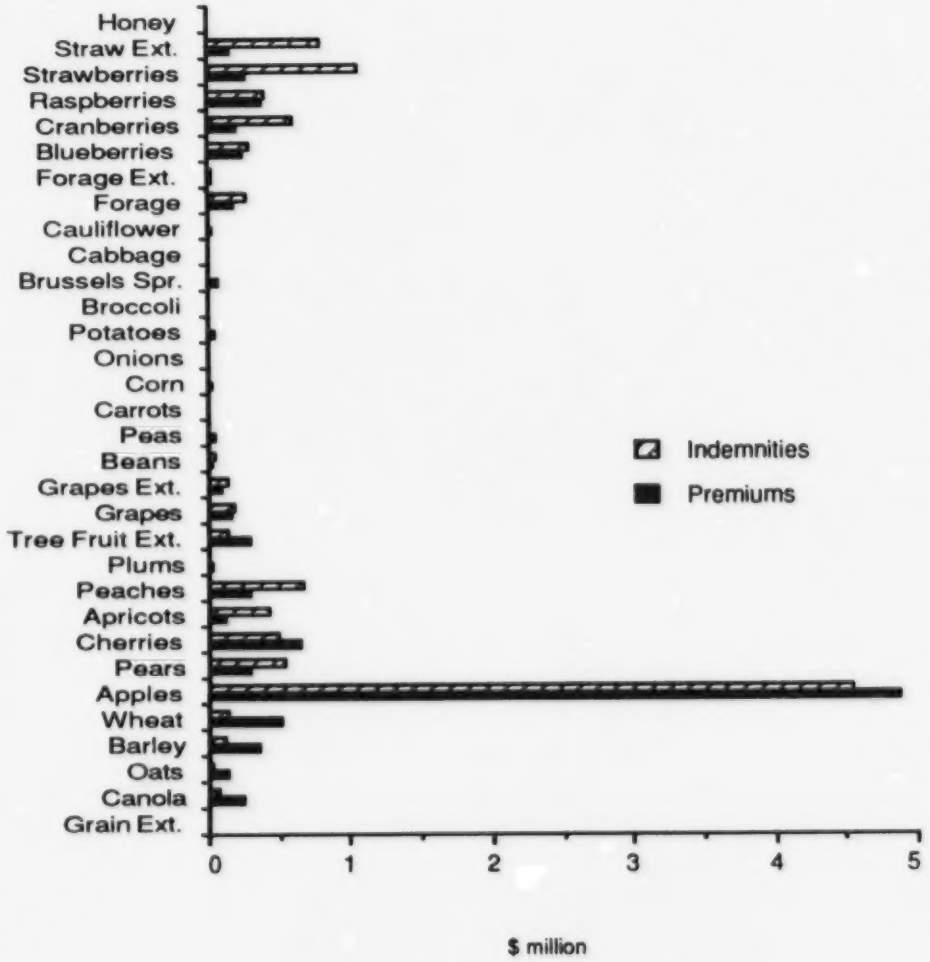
*Peace River*



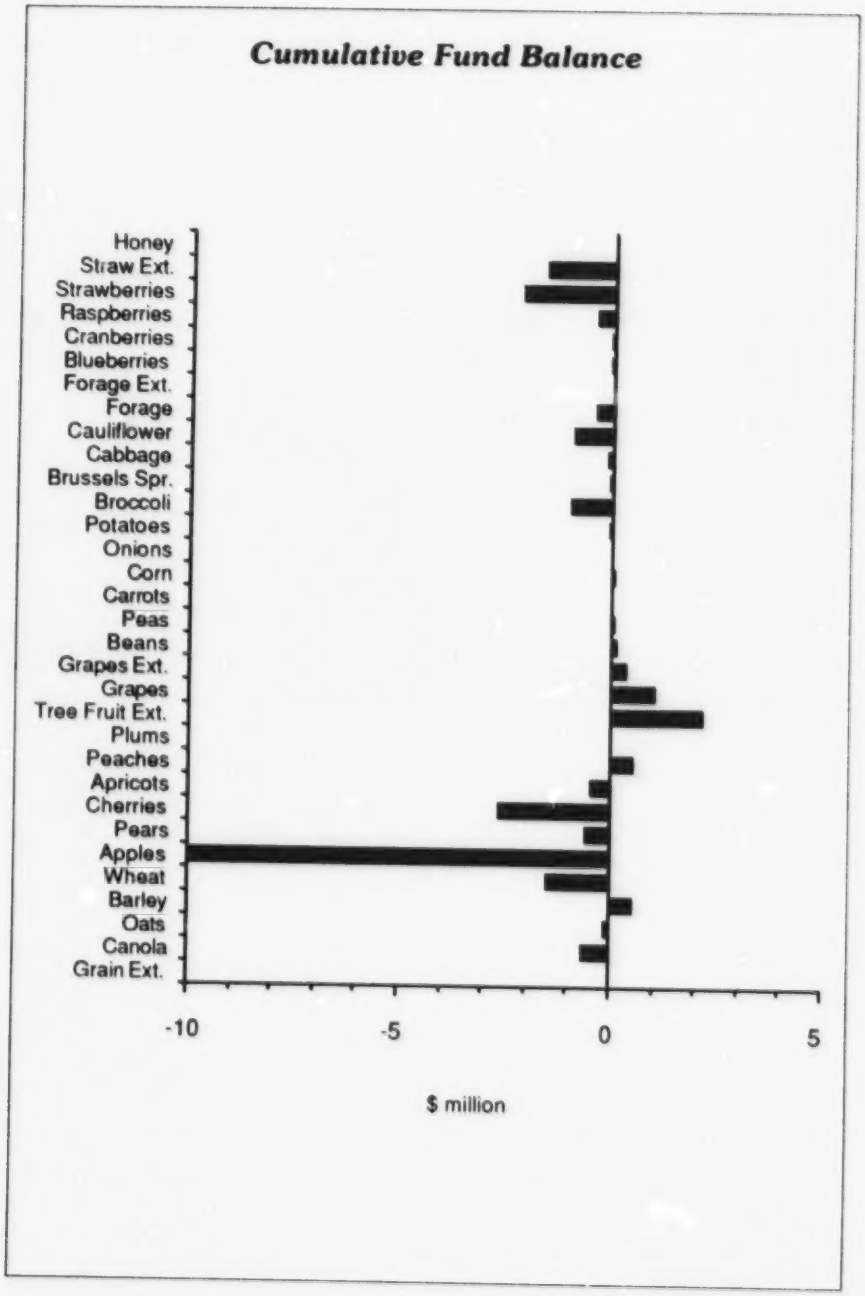

**$7.6 million**

## *1989*

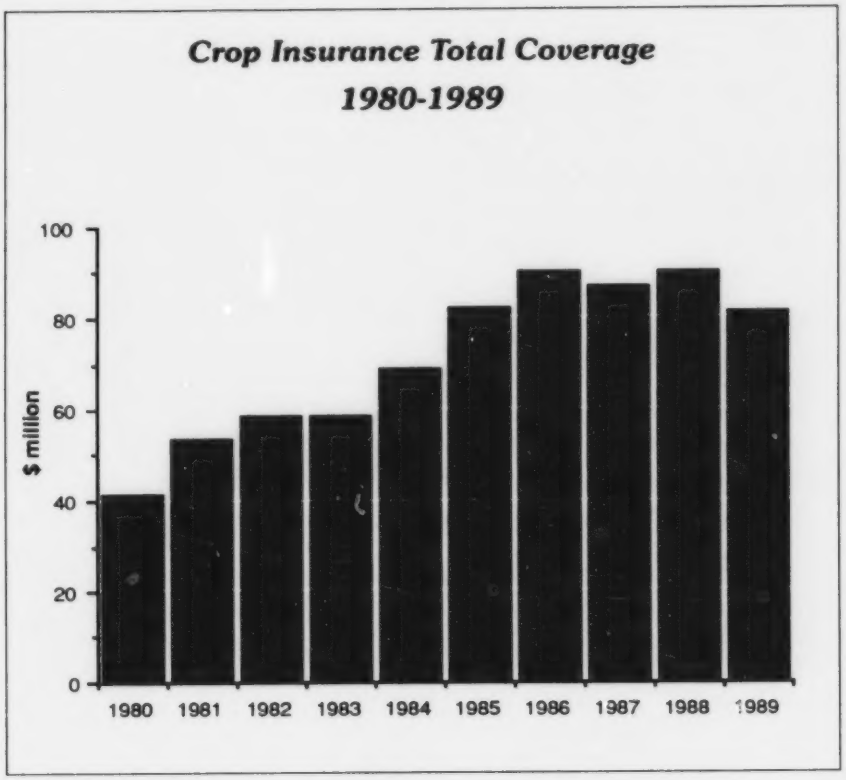
### *Annual Comparison of Premiums and Indemnities On a Cash Basis for Each Crop*



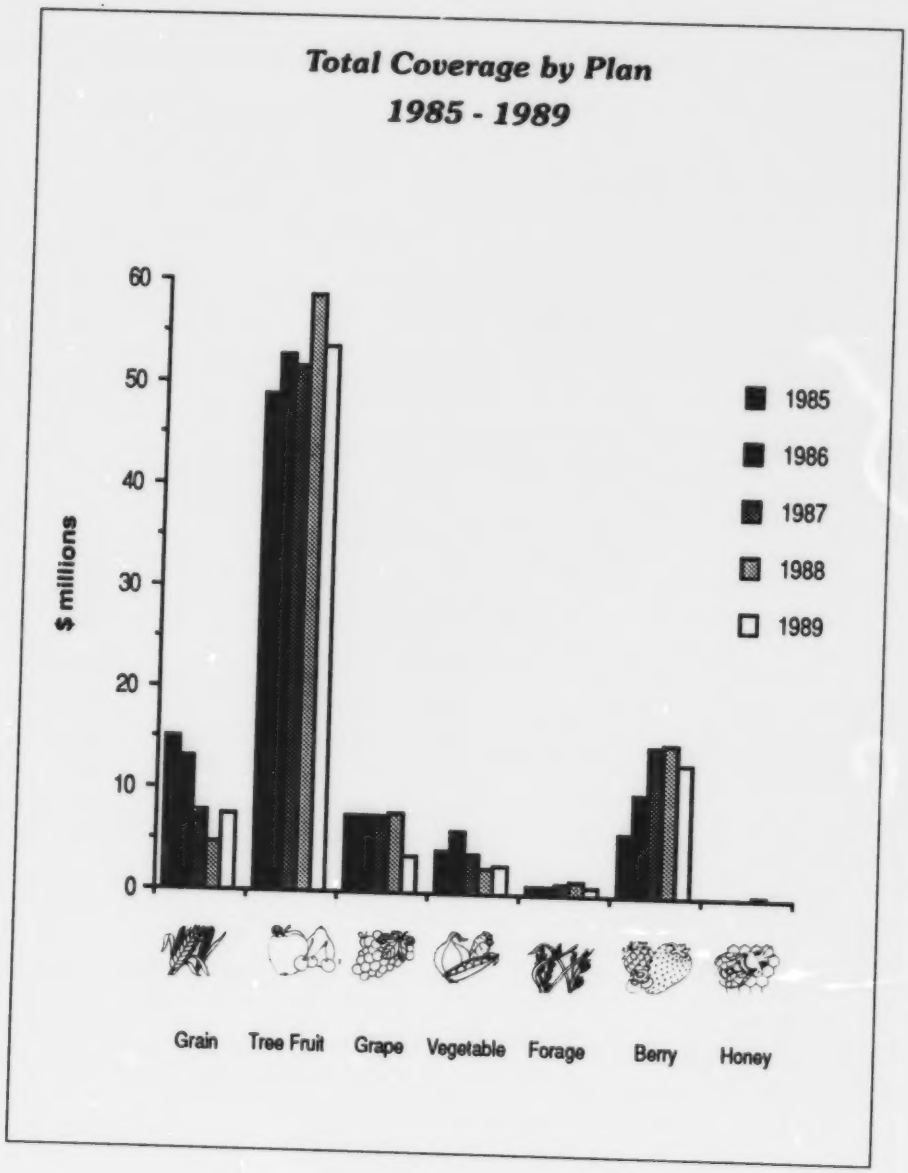
*The cumulative fund balance for each crop at the end of the 1989 crop year.*



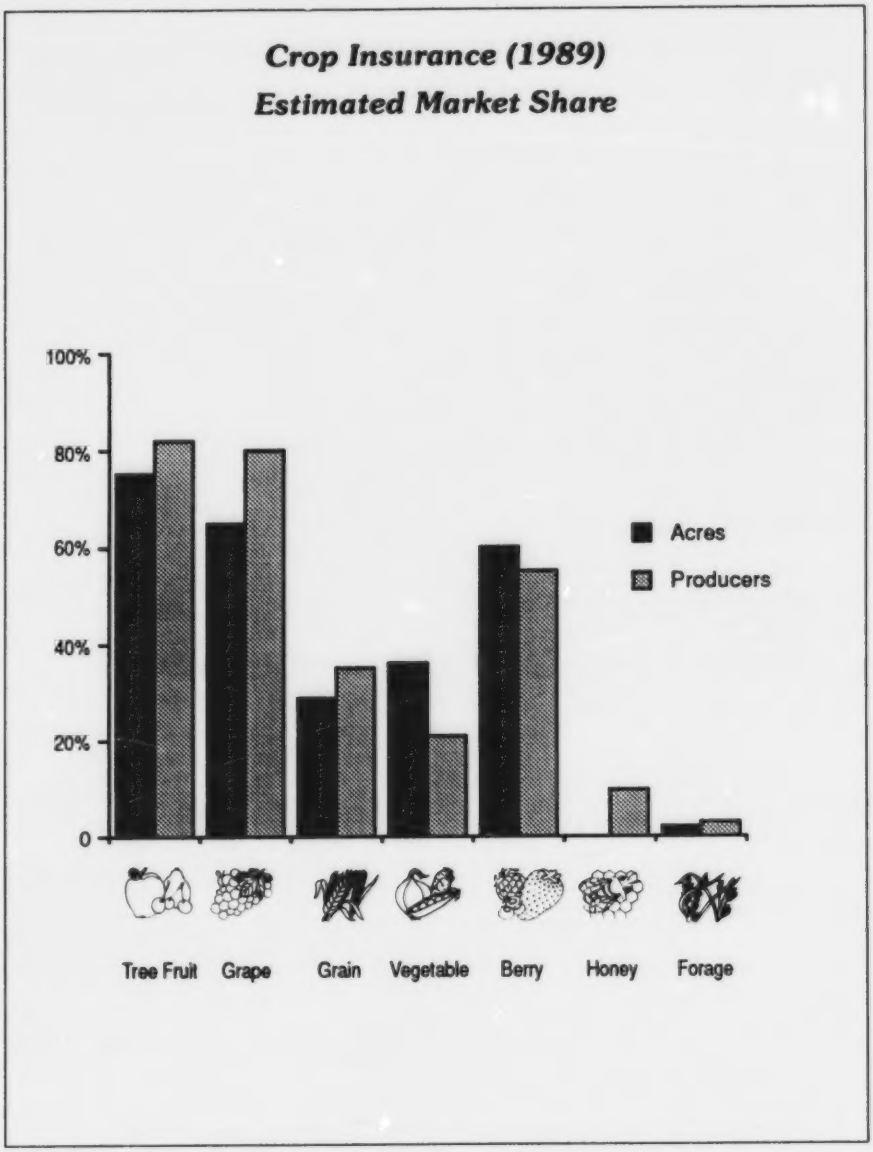
*The 1989 crop year insurance coverage decrease in comparison to 1988 is primarily due to less grape and strawberry planted acres.*



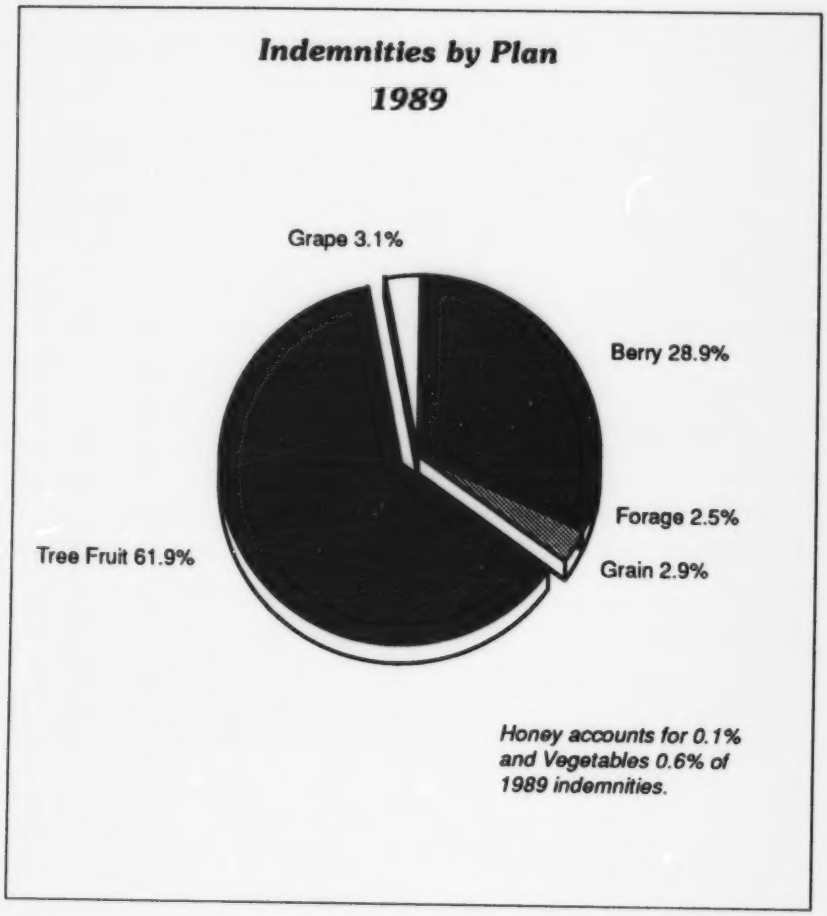
*Total coverage in each plan will vary according to the size of the industry in B.C., market participation and commodity prices.*



*Market penetration is greatest in the tree fruit plan and lowest in forage.*

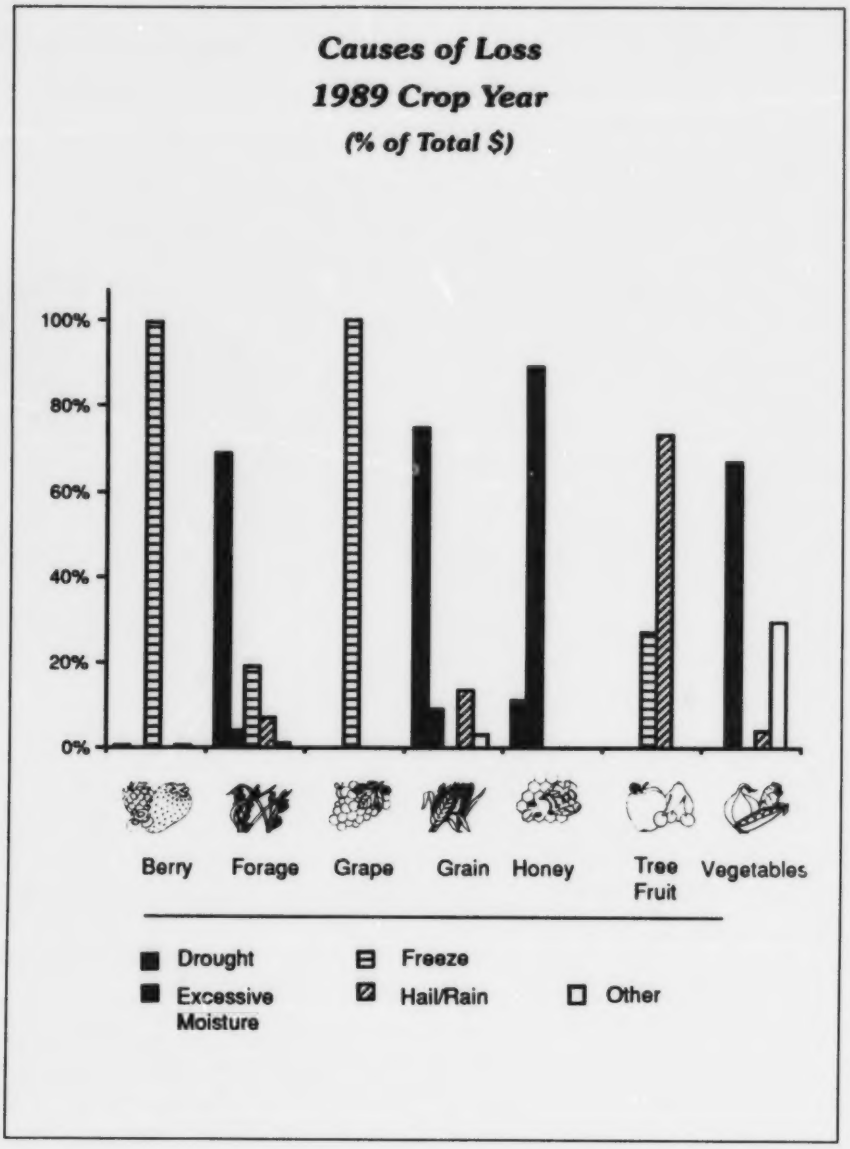



Individualized underwriting combined with a greater emphasis on sales in all plans should produce increases in market penetration in the future. The honey plan currently is offered only in the Okanagan and Peace River areas.

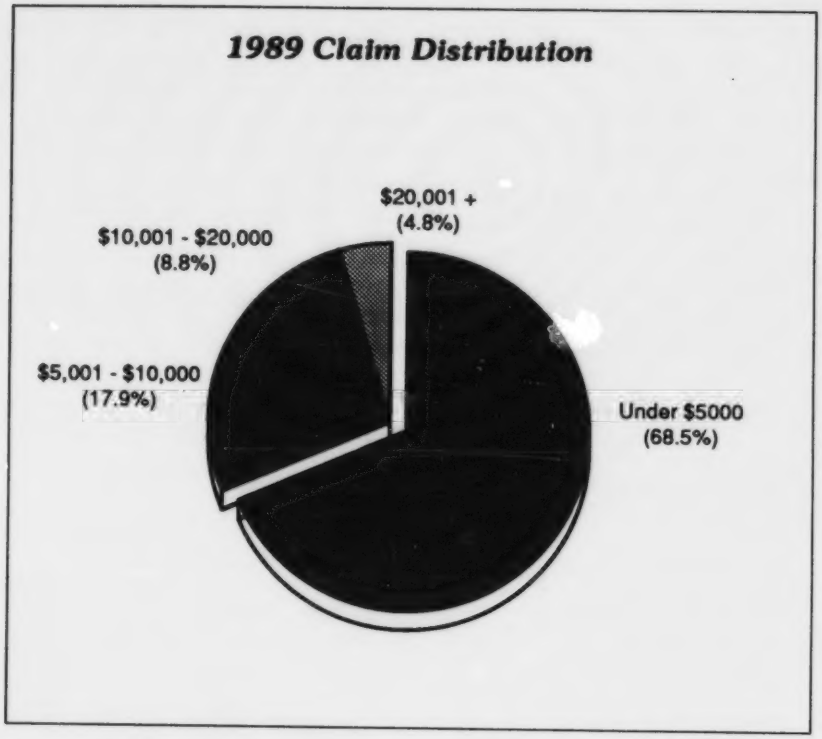



The crop insurance contract specifies for each plan the perils for which coverage is offered. Total indemnities were $10.9 million in the 1989 Crop Year.

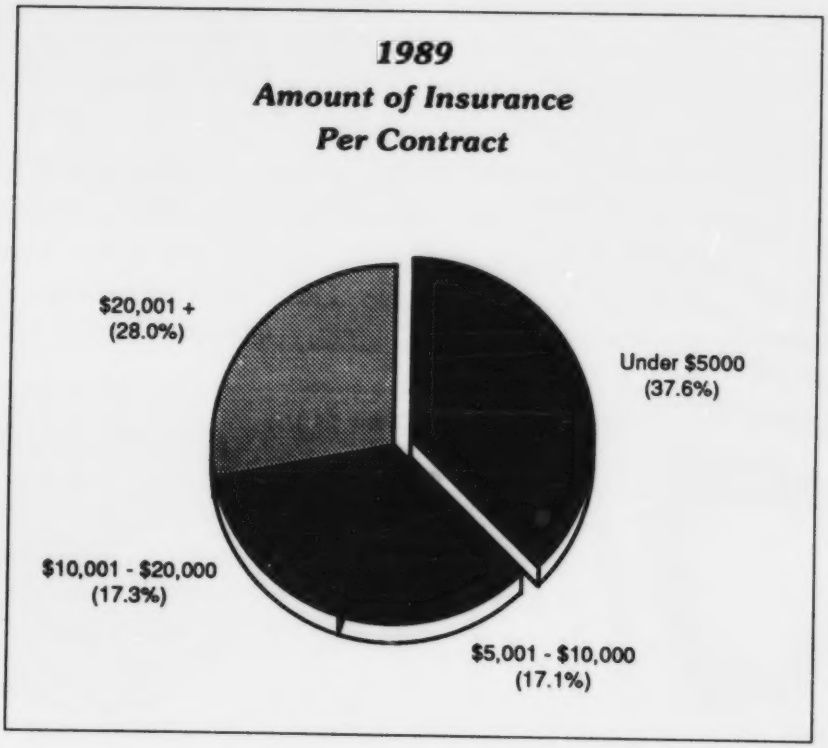
*Freezing temperatures during the winter and hail storms in the Okanagan during the summer were the primary causes of loss in 1989.*



*Claims range in size from very small to a significant number of dollars, depending on the extent of losses and the size of the farm insured. 26 per cent of claims were less than $1000.*



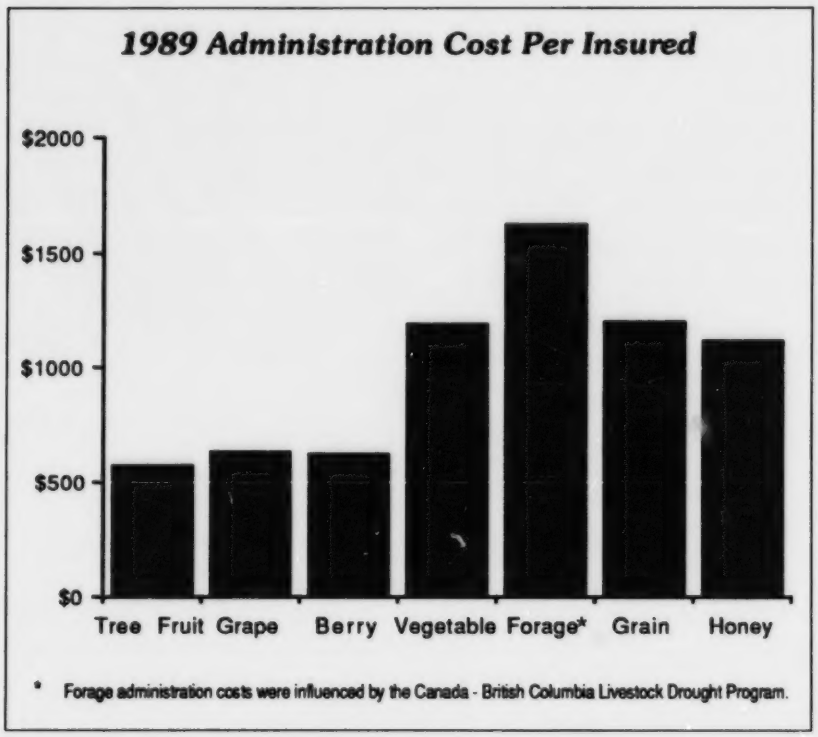

*The size of the farm and the number of crops grown per farm determines the insurance per contract.*



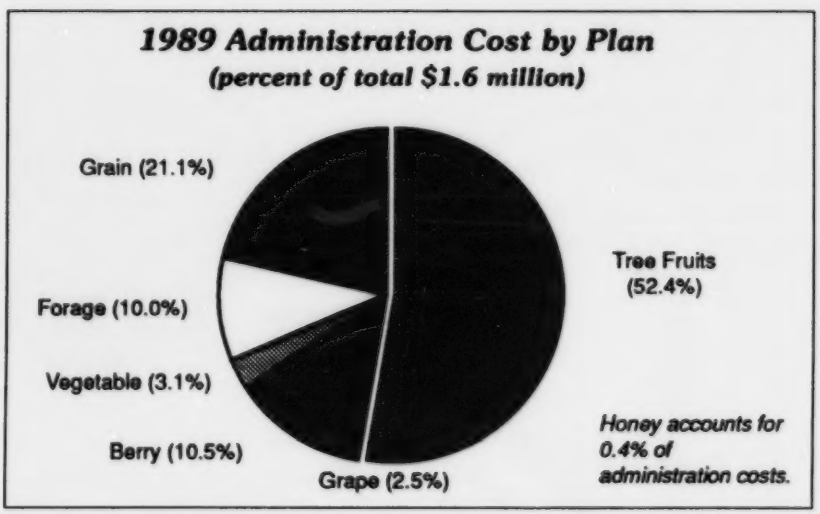
## *Administration Costs*

**The province of British Columbia, through the British Columbia Ministry of Agriculture and Fisheries, funds the administration of the Crop Insurance Program. Administration costs of $1.6 million represent all program delivery costs but do not include the annual estimated $1.7 million cost of borrowing funds for the cumulative crop insurance debt.**

*The number of contracts, the type of crops grown and the geographical dispersion of the farms within a plan affect the administrative costs.*




*Administration Cost by Crop Insurance Plan*



# CANADA-BRITISH COLUMBIA Crop Insurance

MINISTRY OF AGRICULTURE AND FISHERIES, 808 Douglas Street, Victoria, B.C. V8W 2Z7

# *Evaluation Survey*

**Please take a moment to fill out this survey. Your evaluation of the CANADA-BRITISH COLUMBIA CROP INSURANCE Financial Statements and Selected Statistics reports will help us to improve future reports. Please mail to the above address or deliver by hand to any of the offices listed in the report.**

---

1. **What percentage of the annual report did you read?**

   *(please circle)* 100% 75% 50% 25% 0

2. **Was the report easy to understand?**

   *(please circle)* Very Easy Easy Somewhat Difficult Very Difficult

3. **How would you rate the quality of the information contained in the following sections of the report?**

| *(please circle)* | Excellent | Good | Fair | Poor |
|---|---|---|---|---|
| Program Overview | 1 | 2 | 3 | 4 |
| Financial Statements | 1 | 2 | 3 | 4 |
| Selected Statistics | 1 | 2 | 3 | 4 |

4. **How could the report be improved?**

   _____

   _____

   _____

   _____

5. **What is your major occupation?**

   _____ farmer
   _____ farm organization representative
   _____ agribusiness person
   _____ government official
   _____ agricultural specialist
   _____ financial analyst
   _____ other Please specify _____

Agriculture Canada

Hon. Don Mazankowski, Minister

BC

Ministry of Agriculture and Fisheries

Hon. John L. Savage, Minister